

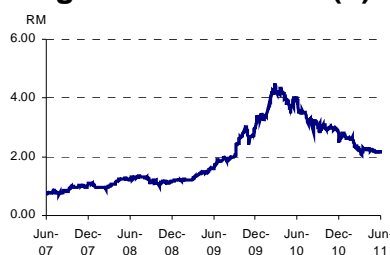
Results Note

Hai-O Ent

HAIO MK
RM2.16

SELL (maintain)

Target Price: RM1.82 (↑)



Price Performance

	1M	3M	12M
Absolute	-1.8%	-0.5%	-48.1%
Rel to KLCI	-3.8%	-3.6%	-56.0%

Stock Data

Issued shares (m)	202.2
Mkt cap (RMm)	436.7
Avg daily vol - 6mth (m)	0.2
52-wk range (RM)	4.19 – 2.07
Est free float	66.5%
NTA per share (RM) (end-Apr 11)	1.01
P/NTA (x)	2.13
Net cash/debt (RMm) (end-Apr 11)	29.7
ROE (FY12E)	14.4%
Derivatives	Nil

Key Shareholders

Tan Kai Hee	9.6%
Akintan Sdn Bhd	7.2%

Earnings & Valuation Revisions

	12E	13E	14E
Prev EPS (sen)	16.5	19.0	-
Curr EPS (sen)	16.5	19.0	21.7
Chg (%)	-	-	-
Prev target price (RM)	-	-	1.57
Curr target price (RM)	-	-	1.82

Shakira Hatta
(603) 2142 8158
shakira@affininvestmentbank.com.my

4QFY04/11 turns in a 2nd consecutive quarter of growth

Within expectations

Hai-O reported a lower full year FY04/11 revenue of RM223.2m (-56.3% yoy), dragged down by revenue declines of: 1) -70% yoy in the MLM division, and; 2) -47% yoy in the wholesale division. The former is attributed to the implementation of stricter new membership guidelines, which were imposed in April 2010, in tandem with the new Direct Sales Act. As a result, revenue contribution from the MLM division fell from 81.8% in FY04/10 to 56.1% in FY04/11. On the upside, revenue in the retail and manufacturing divisions grew by +4% yoy and +12% yoy, respectively, as Hai-O focused on reducing its dependency on the MLM division. EBIT margin remained relatively stable, at 18.5% vs. 18.7% in FY04/10. However, a higher effective tax rate of 27.1% (FY04/10: 24.8%) put further pressure on earnings. Overall, FY04/11 net profit fell by -59.2% yoy to RM28.8m. Results were however within expectations, accounting for 102% and 105% of our and consensus estimates.

4QFY04/11 net profit up +34.7% qoq

On a sequential basis, 4QFY04/11 revenue was relatively flat at RM58.2m (+1%), as the +17.7% increase in MLM revenue contribution was offset by declines of -27.9% and -14.4% in the wholesale and retail divisions, respectively. Nevertheless, EBIT margin picked up from 15.7% in 3QFY04/11 to 21.4% in 4QFY04/11, boosted by stronger margin in the MLM division (23.6% vs. 15% in 3QFY04/11). Hai-O has been actively providing motivation and training programs for its distributors, in order to boost earnings in the MLM division. Overall, 4QFY04/11 net profit surged by +34.7% qoq to RM8.5m, accounting for 30% and 31% of our and consensus estimates.

Maintain SELL despite a higher TP of RM1.82

We are keeping our FY12-13 net earnings forecasts unchanged, and introduce our FY14 net profit forecast of RM44.1m (+14.5% yoy). Although 4QFY04/11 marked Hai-O's second consecutive quarter of earnings recovery, we remain cautious as we believe it may take time for: 1) MLM sales to recover significantly and consistently, and; 2) Hai-O to rebuild its earnings base with reduced dependency on the MLM division. Thus, we maintain our SELL call. Notwithstanding that, after rolling forward our valuation horizon to CY12, our target price is raised to RM1.82, pegged to an unchanged PE target of 10x on CY12 EPS. Key re-rating catalysts for the stock in the near term are: 1) significant increase in new monthly memberships; 2) stronger sales across all divisions, and; 3) faster-than-expected commercialization of the technology division under Hai-O Energy.

Earnings and valuation summary

FYE 30 April	2010	2011	2012E	2013E	2014E
Revenue (RMm)	511.1	223.2	251.2	285.2	320.1
EBITDA (RMm)	96.5	42.2	50.7	57.7	64.9
Pretax profit (RMm)	95.6	41.4	45.4	52.3	59.9
Net profit (RMm)	70.6	28.8	33.4	38.5	44.1
EPS (sen)	34.8	14.2	16.5	19.0	21.7
EPS growth (%)	35.0	-59.2	15.9	15.2	14.5
PER (x)	6.2	15.2	13.1	11.4	9.9
Core net profit (RMm)	70.6	28.8	33.4	38.5	44.1
Core EPS (sen)	34.8	14.2	16.5	19.0	21.7
Core PER (x)	6.2	15.2	13.1	11.4	9.9
Net DPS (sen)	19.6	8.5	9.9	11.4	13.0
Net Dividend Yield (%)	9.1	4.0	4.6	5.3	6.0
EV/EBITDA (x)	3.5	7.1	5.7	4.8	6.7
Consensus profit (RMm)	-	-	31.2	38.5	-
Affin/Consensus (x)	-	-	1.1	1.0	-

Fig 1: Quarterly results comparison

FYE April (RMm)	4QFY10	3QFY11	4QFY11	QoQ % chg	YoY % chg	Comment
Revenue	98.8	57.6	58.2	1.0	(41.1)	Overall topline growth was relatively flat, as the +17.7% increase in MLM revenue was offset by revenue declines of -27.9% and -14.4% in the wholesale and retail divisions, respectively.
Op costs	(114.6)	(66.7)	(70.6)	5.9	(38.4)	
Exceptional gain/losses	0.0	0.0	0.0	nm	nm	
EBIT	15.8	9.0	12.4	37.6	(21.2)	
EBIT margin (%)	16.0	15.7	21.4	nm	nm	Boosted primarily by stronger margins in the MLM division.
Int expense	(0.2)	(0.2)	(0.2)	(18.1)	3.8	
Int and other inc	0.2	0.2	0.3	11.0	40.0	
Associates	0.0	0.0	0.0	nm	nm	
Pretax	15.8	9.0	12.5	38.4	(20.8)	
Tax	(0.8)	(2.3)	(3.5)	50.7	354.5	
Tax rate (%)	4.9	25.8	28.1	nm	nm	
MI	(0.7)	(0.4)	(0.4)	24.6	nm	
Net profit	14.3	6.3	8.5	34.7	(40.1)	Accounts for 30% and 31% of our and consensus estimates, respectively
EPS (sen)	7.1	3.1	4.2	34.7	(40.1)	
Core net profit	14.3	6.3	8.5	34.7	(40.1)	

Source: Company, Affin

Fig 2: Cumulative results comparison

FYE April (RMm)	FY04/10	FY04/11	YTD % chg	Comment
Revenue	511.1	223.2	(56.3)	Attributed to sharp revenue declines of: 1) -70% yoy in the MLM division, and; 2) -47% yoy in the wholesale division.
Op costs	(606.8)	(264.5)	(56.4)	
Exceptional gain/losses	0.0	0.0	nm	
EBIT	95.7	41.4	(56.8)	
EBIT margin (%)	18.7	18.5	nm	Largely in line with our FY04/11 forecast of 18.3%
Int expense	(0.8)	(0.8)	2.5	
Int and other inc	0.7	0.9	17.8	
Associates	0.0	0.0	nm	
Pretax	95.63	41.4	(56.7)	
Tax	(23.8)	(11.2)	(52.9)	
Tax rate (%)	24.8	27.1	nm	
MI	(1.3)	(1.4)	7.3	
Net profit	70.6	28.8	(59.2)	Within expectations - accounts for 102% and 105% of our and consensus estimates
EPS (sen)	34.9	14.3	(59.2)	
Core net profit	70.6	28.8	(59.2)	

Source: Company, Affin

Fig 3: Segmental revenue breakdown

FY April (RMm)	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11	4QFY11	QoQ % chg	YoY % chg
Wholesale	46.3	70.6	72.5	38.6	21.9	23.7	43.9	31.7	(27.9)	(18.0)
MLM	130.3	108.9	106.2	72.6	35.2	26.7	29.0	34.2	17.7	(52.9)
Retail	7.9	10.8	9.6	13.6	8.2	11.3	13.1	11.2	(14.4)	(17.4)
Manufacturing	1.2	1.2	1.4	1.4	2.0	1.4	1.1	1.4	31.8	3.8
Others	(37.1)	(59.1)	(58.4)	(27.4)	(12.6)	(10.4)	(29.5)	(20.3)	(31.1)	(25.7)
Total	148.6	132.4	131.3	98.8	54.8	52.6	57.6	58.2	1.0	(41.1)
Qoq (%)	11.8	(10.9)	(0.8)	(24.7)	(44.6)	(3.9)	9.5	1.0		
Yoy (%)	31.6	51.6	28.5	(25.6)	(63.1)	(60.2)	(56.1)	(41.1)		
Contribution (%)										
Wholesale	31.1	53.3	55.2	39.1	40.1	45.0	76.2	54.4		
MLM	87.7	82.3	80.9	73.4	64.4	50.8	50.4	58.7		
Retail	5.3	8.1	7.3	13.8	14.9	21.4	22.7	19.3		
Manufacturing	0.8	0.9	1.1	1.4	3.6	2.6	1.9	2.5		
Others	(25.0)	(44.6)	(44.5)	(27.7)	(22.9)	(19.8)	(51.2)	(34.9)		
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0		

Source: Company, Affin

Fig 4: Segmental EBIT breakdown

FY April (RMm)	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11	4QFY11	QoQ % chg	YoY % chg
Wholesale	4.1	5.5	3.0	(0.7)	2.6	3.6	3.0	1.6	(48.1)	(311.4)
MLM	21.2	21.8	20.5	11.8	6.4	3.5	4.4	8.1	85.6	(31.6)
Retailing	0.3	1.3	0.6	1.9	0.3	1.8	1.3	1.2	(5.4)	(35.8)
Manufacturing	0.2	0.2	0.0	0.2	0.2	0.2	0.0	0.2	302.6	(29.9)
Others	0.3	1.4	1.6	1.4	1.1	1.2	1.1	1.0	(4.5)	(29.0)
Elimination	0.2	(0.4)	(0.1)	1.3	0.8	(0.8)	(0.4)	1.4	(146.2)	8.8
Total	26.3	28.7	25.2	15.8	10.8	9.1	9.0	12.4	37.6	(21.2)
Contribution (%)										
Wholesale	15.7%	19.0%	11.7%	(4.7%)	24.0%	39.7%	33.6%	12.7%		
MLM	80.6%	75.9%	81.2%	74.9%	58.9%	38.9%	48.2%	65.0%		
Retailing	1.2%	4.4%	2.5%	12.0%	2.8%	19.6%	14.2%	9.8%		
Manufacturing	0.8%	0.8%	0.2%	1.4%	2.2%	2.4%	0.4%	1.3%		
Others	1.0%	5.0%	6.5%	9.1%	10.1%	13.3%	11.8%	8.2%		
Elimination	0.8%	(1.4%)	(0.6%)	8.2%	7.3%	(8.3%)	(4.5%)	11.3%		
Margin (%)										
Wholesale	8.9%	7.7%	4.1%	(1.9%)	11.8%	15.3%	6.9%	5.0%		
MLM	16.3%	20.0%	19.3%	16.3%	18.0%	13.2%	15.0%	23.6%		
Retailing	3.9%	11.7%	6.6%	13.9%	3.8%	15.8%	9.8%	10.8%		
Manufacturing	17.5%	20.1%	2.7%	16.0%	12.3%	15.7%	3.5%	10.8%		
Others	9.8%	40.8%	55.3%	33.2%	34.5%	41.9%	35.2%	45.0%		
Elimination	(0.5%)	0.7%	0.2%	(4.1%)	(5.0%)	5.7%	1.3%	(6.2%)		

Source: Company, Affin

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +15% over a 12-month period
TRADING BUY (TR BUY)	Total return is expected to exceed +15% over a 3-month period due to short-term positive development, but fundamentals are not strong enough to warrant a Buy call. This is to cater to investors who are willing to take on higher risks
ADD	Total return is expected to be between 0% to +15% over a 12-month period
REDUCE	Total return is expected to be between 0% to -15% over a 12-month period
TRADING SELL (TR SELL)	Total return is expected to exceed -15% over a 3-month period due to short-term negative development, but fundamentals are strong enough to avoid a Sell call. This is to cater to investors who are willing to take on higher risks
SELL	Total return is expected to be below -15% over a 12-month period
NOT RATED	Affin Investment Bank does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation
OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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Affin Investment Bank Bhd (9999-V)
A Participating Organisation of Bursa Malaysia
Securities Bhd

www.affininvestmentbank.com.my

Email : research@affininvestmentbank.com.my

Tel : 603-2143 8668

Fax : 603-2145 3005